U.S. Department of the Interior
Office of Inspector General

AUDIT REPORT

DIRECT AND GUARANTEED LOAN PROGRAMS, EASTERN AREA OFFICE, BUREAU OF INDIAN AFFAIRS

REPORT NO. 97-I-504
MARCH 1997

United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

MEMORANDUM

TO: **The Secretary**

FROM: **Wilma A. Lewis**
Inspector **General**

SUBJECT SUMMARY: Final **Audit** Report for Your Information - "Direct and Guaranteed Loan Programs, Eastern Area **Office, Bureau** of Indian Affairs " (No. 97-I-504)

Attached for your information is a copy of the subject final audit report. The objective of the audit was to determine whether the Eastern Area Office, Bureau of Indian Affairs, managed its loan programs in compliance with applicable laws, regulations, and guidance.

The Eastern Area Office did not manage its direct and guaranteed loan programs in compliance with applicable requirements. Specifically, the Area Office did not ensure that: (1) loan applications were screened and analyzed for reasonable assurance of the borrower's ability to repay; (2) outstanding loans were monitored adequately; (3) debt collection activities were initiated when appropriate; and (4) loan write-offs were adequately justified. According to Area Office officials, these deficiencies occurred because of the lack of administrative support staff to maintain complete files and the lack of Area Office internal procedures on debt collection and loan write-offs. In addition, the Area Credit Officer said that he believed that: (1) the lender was performing the required analysis of guaranteed loan proposals and (2) the Division of Accounting Management was performing the required debt collection activities. These factors, combined with the failure of the Area Office to effectively implement the recommendations made in the June 1994 report issued by the Bureau's Division of Financial Assistance on the Area Office's loan program, resulted in weak management and control of the loan program. This directly contributed to the write-off of over $2.9 million of delinquent loans in fiscal year 1993 and to the risk that an additional $14.8 million of loans that are over 1 year past due may not be collected. The Bureau agreed with all six of our recommendations to correct these conditions.

If you have any questions concerning this matter, please contact me at (202) 208-5745 or Mr. Robert J. Williams, Acting Assistant Inspector General for Audits, at (202) 208-4252.

Attachment

United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

AUDIT REPORT

MAR 10 1997

Memorandum

To: Assistant Secretary for Indian Affairs

From: Robert J. Williams
Acting Assistant Inspector General for Audits

Subject: Audit Report on the Direct and Guaranteed Loan Programs, Eastern Area Office, Bureau of Indian Affairs (No. 97-I-504)

INTRODUCTION

This report presents the results of our audit of the Bureau of Indian Affairs Eastern Area Office's administration of its direct and guaranteed loan programs. The objective of the audit was to determine whether the Area Office managed its loan programs in compliance with applicable laws, regulations, and guidance.

BACKGROUND

The Indian Financing Act of 1974 (Public Law 93-262, as amended) was enacted to provide financing for the economic development of Indians and Indian organizations. Title I of the Act provided direct funding, which was not available from the private sector, to individual Indians and Indian organizations, and Title II of the Act provided funding to guarantee loans made to Indians and Indian organizations by private financial institutions. Under the guaranteed loan program, the Bureau of Indian Affairs is authorized to guarantee repayment of up to 90 percent of commercial loans made to eligible borrowers.

The Bureau's Office of Economic Development, Division of Financial Assistance, in Washington, D.C., provides overall policy and guidance for administering the direct and guaranteed loan programs nationwide and evaluates and monitors program activities conducted by the Bureau's 12 area offices and subordinate agency offices. Area directors are authorized to approve guaranteed loans of up to $1.5 million to individuals and Indian organizations, as well as direct loans of up to $350,000 to individuals and up to $2 million to Indian organizations. The Division approves all loans that exceed the area directors' authority. The Bureau's Office of Management and Administration, Division of Accounting

Management, in Albuquerque, New Mexico, is responsible for Bureauwide accounting operations and provides overall policies and guidance regarding billing for direct and guaranteed loans.

The Eastern Area Office, in Arlington, Virginia, provides loan services to 26 tribes located in 13 states: New York, Maine, Alabama, Florida, Louisiana, Tennessee, Massachusetts, Virginia, South Carolina, North Carolina, Connecticut, Mississippi, and Rhode Island. Since March 1988, the Area Office's direct and guaranteed loan programs have been administered primarily by a credit officer operating under the Area Office's Division Chief for Trust Services. As of June 30, 1995, according to Bureau records, the Area Office had 38 outstanding guaranteed loans, totaling about $36.5 million, and 18 direct loans, with total outstanding balances of about $7.1 million. Because of discrepancies in Area Office records, we were not able to determine the total amount of direct and guaranteed loans that were delinquent as of June 30, 1995. However, we did identify at least 15 defaulted and/or delinquent loans, which totaled $15.2 million.

SCOPE OF AUDIT

To accomplish our audit objective, we examined and analyzed the following: 12 loans ($13.5 million) of the 56 outstanding direct and guaranteed loans ($43.6 million) for the adequacy of loan approvals and monitoring actions; 15 defaulted and delinquent loans ($15.2 million) for effectiveness of debt collection activities; and 21 loans ($2.9 million) for adequacy of loan write-off justifications. In addition, we followed up on corrective actions taken by the Area Office in response to the Division of Financial Assistance's June 1994 report on the Area Office's management of direct and guaranteed loans (see Prior Reviews section of this report).

We conducted our audit at the Bureau's Eastern Area Office and obtained information from the Bureau's Office of Economic Development, Division of Financial Assistance, and the Bureau's Office of Management and Administration, Division of Accounting Management. This audit was conducted in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances to accomplish the audit objective.

As part of the audit, we evaluated the system of internal controls over the loan approval, monitoring, collection, and write-off functions to the extent that we considered necessary to accomplish the audit objective. The internal control weaknesses are discussed in the Results of Audit section of this report. The recommendations, if implemented, should improve the internal controls in these areas. We also reviewed the Secretary's Annual Statement and Report, required by the Federal Managers' Financial Integrity Act, for fiscal year 1995 to determine whether any reported weaknesses were within the objective and scope of our audit. The report identified inadequate debt collection in the Bureau as a material internal control weakness. Specifically, the report stated that the Bureau's regulations, procedures, and guidelines were inadequate, obsolete, outdated, or otherwise insufficient to properly

administer debt collection functions and that the Bureau did not consistently pursue the collection of debts in an aggressive and timely manner. Our review disclosed that these weaknesses had not been corrected at the Eastern Area Office, as discussed in the Results of Audit section of this report.

PRIOR REVIEWS

Neither the General Accounting Office nor the Office of Inspector General has issued any reports related to the Eastern Area Office's direct and guaranteed loan programs during the past 5 years. However, the Bureau's Division of Financial Assistance issued a report on the Area Office Loan Program in June 1994. The report concluded that "the deficiencies noted in your credit office are severe enough for us [Division of Financial Assistance] to recommend that your total efforts be directed completely at managing the existing loans." Specifically, the report stated that: (1) the loan files were not properly assembled or secured in lockable file cabinets; (2) the loan files did not provide evidence of loan servicing and debt collection activities; (3) Area Credit Office management decisions and activities of the Area Office Credit Officer were not documented; and (4) no formal procedures or plans had been developed to correct problem loans, to ensure that loans were adequately collateralized, and to properly account for assets acquired through foreclosure or default. The report contained 10 recommendations pertaining to the immediate correction of the deficiencies through the combined efforts of Area Office and Division personnel. Based on the Area Office's statement that most of the deficiencies had been corrected, the Division closed the report on December 14, 1994.

RESULTS OF AUDIT

The Bureau of Indian Affairs Eastern Area Office did not manage its direct and guaranteed loan programs in compliance with applicable requirements. Specifically, the Area Office did not ensure that: (1) loan applications were screened and analyzed for reasonable assurance of the borrower's ability to repay; (2) outstanding loans were monitored adequately; (3) debt collection activities were initiated when appropriate; and (4) loan write-offs were adequately justified. The Code of Federal Regulations (25 CFR 101 and 103), the Bureau of Indian Affairs Manual (47 BIAM), the Departmental Manual (344 DM 10), and Office of Management and Budget Circular A-129 ("Managing Federal Credit Programs") contain the regulations, policies, and procedures for managing Bureau loan programs. According to Area Office officials, these deficiencies occurred because of the lack of administrative support staff to maintain complete files and the lack of Area Office internal procedures on debt collection and loan write-offs. In addition, the Area Credit Officer said that he believed that: (1) the lender was performing the required analysis of guaranteed loan proposals and (2) the Division of Accounting Management was performing the required debt collection activities. These factors, combined with the failure of the Area Office to effectively implement the recommendations in the June 1994 review, resulted in weak management and control of the loan program. This directly contributed to the write-off of over $2.9 million

of delinquent loans in fiscal year 1993 and to the risk that an additional $14.8 million of loans that are over 1 year past due may not be collected.

Application Review and Loan Monitoring

The Area Office did not always adequately analyze loan applications to determine whether borrowers could repay the loans or monitor the loans to ensure that lenders and/or borrowers were complying with loan agreement terms and applicable regulations. The Code of Federal Regulations (25 CFR 101.4 and 103.15) requires that loan applications contain certain financial information, such as credit history, and that only loans with reasonable assurance of repayment be approved. The Departmental Manual (344 DM 10.4) and Office of Management and Budget Circular A-129 require that Bureau officials responsible for administering direct and guaranteed loans review and analyze credit applications to assess the applicant's ability to repay. In addition, the Bureau of Indian Affairs Manual (47 BIAM Supplements 1 and 2) and the Departmental Manual (344 DM 10.5) require that loan account files be properly maintained and that they afford a means for determining that loan payments are received and accounted for, delinquent accounts are identified promptly, and reports are produced comparing actual financial results with previously established budgets. We were limited in our attempts to determine the cause of noncompliance with this guidance because of incomplete file documentation. Specifically, we reviewed 12 files (10 guaranteed loans and 2 direct loans) and found that over 50 percent of the required loan application documentation and about 90 percent (83 of 93) of the reports required to adequately monitor the borrowers' activities were not in the files. For example:

- None of the 12 loan files contained reports on the borrowers' credit history.

- Ten of the 12 loan files did not contain evidence that an analysis of the borrowers' ability to repay had been performed.

- Four of the 10 guaranteed loan files did not designate the loan repayment sources, such as salary or business operations.

- Thirty-three of 38 required quarterly reports, 9 of 13 required annual reports, and 41 of 42 required monthly reports showing the financial status of the borrowers' business operations were not in the loan files.

- None of the 12 loan files contained up-to-date payment histories.

For guaranteed loans, we found that Area Office personnel relied on lenders to obtain the necessary application information, to perform the necessary financial analyses, and to monitor the loan accounts but did not ensure that these requirements were completed. For example:

- During 1991, the Area Office approved three 90 percent guaranteed loans, totaling about $5.5 million, to provide working capital for a limited partnership that was

commercializing a new pollution control and recycling device for cement manufacturing plants. However, the file did not contain documentation to support that the Area Office: (1) had performed an analysis of the borrower's ability to repay the loan; (2) had obtained credit reports on key borrower personnel; (3) had determined that collateral pledged on the loan was properly secured; and (4) had received and analyzed required reports to monitor the borrower's business operations and to determine the borrower's ongoing ability to repay the loan. In addition, on September 30, 1994, while the partnership was already in default on these loans, the Area Office awarded the partnership a direct loan of $300,000. According to the loan documents, the purpose of the loan was to "allow your company to wind down the business in an orderly manner or either sell or find an investor." The documents further stated that the Area Office's decision to make the direct loan was based on "the viability of your [the] company and the lack of reasonable prospect of repayment." We believe that in making this loan, the Area Office did not comply with the intent of the Indian Financing Act of 1974, which requires that loans be made only when "there is a reasonable prospect of repayment. " On November 29, 1994, the lender administering the guaranteed loans requested a payment of $3,03 1,592 for the guaranteed portion and interest due on the three loans.

- In September 1987, the Assistant Secretary for Indian Affairs approved an 80 percent guaranteed loan of $3.5 million to an Indian tribe for the construction of 30 housing units and a 28,000 square-foot commercial building. In 1989, the Area Office approved an additional 80 percent guaranteed loan of $550,000 to pay for tenant improvements and interest on the loan. By December 1989, after completion of construction, both of the loans were in default, and the lender submitted claims for losses totaling about $3.4 million for both loans as of March 3 1, 1990. The loan files contained little documentation that the Area Office had been monitoring these loans (for example, the file did not contain any of the eight required quarterly financial reports or documentation indicating that the Area Credit Officer had taken action to obtain the reports).

After the Bureau paid the guaranteed portion of the loan to the lender, the tribe conveyed its property rights to the Bureau. The Area Office decided not to sell the property and instead contracted with a management company to operate the facility. However, the Area Office did not adequately monitor the management company, which we believe contributed to the fact that the management company did not properly account for all collected rents and did not pay property taxes that were $148,000 in arrears on the facility.[1] The Bureau paid the back taxes to prevent foreclosure on the property. The Area Office Credit Officer stated that the debt has since been renegotiated with the tribe (including adding the $148,000 in taxes to the tribe's debt); however, there was no evidence in the files to support the renegotiation.

[1]As a result of a joint investigation initiated on September 16, 1994, by the Federal Bureau of Investigation and the Office of Inspector General, the owner of the management company pled guilty to the theft of Government funds in violation of the United States Code (18 U.S.C. 641, "Public Money, Property, or Records") on December 21, 1995, in a U.S. District Court. On April 2, 1996, the owner was sentenced by the District Court to 14 months of imprisonment and 60 months of supervised release and was ordered to pay restitution in the amount of $375,000 and a special assessment of $100.

- In September 1994, the Area Office recommended approval of a 90 percent guaranteed loan of $300,000 to a new construction company. In May 1995, the Area Office approved an additional 90 percent guaranteed loan of $150,000 to the company for working capital. The Code of Federal Regulations (25 CFR 103.15) requires the lender to obtain a signed statement from the borrower indicating that the borrower is not delinquent on Federal taxes or other obligations. In addition, the Code (25 CFR 103.49) requires that the information supporting the loan application be verified. However, the Area Office did not ensure that the lender obtained the borrower's signed statement on Federal taxes and other obligations or verified the financial information supporting the loan application. In July 1995, the company filed for bankruptcy under Chapter 11 of the United States Code, noting that it owed about $350,000 in unpaid taxes and unemployment compensation. In August 1995, the lender filed a claim with the Government for losses totaling about $440,000. According to the Area Office Credit Officer, the Bureau paid the claim related to the $300,000 loan but denied the claim related to the $150,000 loan.

The Area Credit Officer told us that he took action to determine the status of a loan and the financial status of the borrower's business operation only when he was notified that the borrower had defaulted. For direct loans, Area Office personnel generally did not obtain sufficient application information to perform adequate financial analyses or maintain sufficient information in the loan files to adequately monitor the loan accounts. The Credit Officer stated that the guaranteed and direct loan files were not kept current because the Area Credit Office did not have the clerical assistance needed to adequately maintain the files.

Debt Collection

The Area Office did not follow debt collection requirements. The Departmental Manual (344 DM 10.6) requires bureaus to follow the debt collection requirements contained in the Code of Federal Regulations, which states, in general, that agencies are to take timely, aggressive action, including appropriate follow-up, to collect all claims of the Government for money or property. Under the Code (4 CFR 101-l 05), agencies are to make "prompt, increasingly stronger written demands" for payment that inform debtors of the consequences of their failure to cooperate. Also, the Code of Federal Regulations (25 CFR 101.15) and the Bureau Manual (47 BIAM Supplement 2, Part 6.1) prescribe the penalties for direct and assigned loans considered to be in default.[2] These penalties include: (1) taking possession of collateral pledged as security; (2) taking appropriate legal action through the Office of the Solicitor or the Department of Justice; (3) liquidating, operating, or arranging for the operation of economic enterprises financed with loan proceeds; (4) declaring the entire loan immediately due and payable; (5) reporting the delinquent borrower to a credit bureau or a private collection agency; and (6) offsetting amounts owed the borrower under other Federal programs, including Bureau programs and tax refunds owed by the Internal Revenue Service.

[2]Guaranteed loans in default become assigned loans after the Bureau compensates the lender for its loss under the loan guarantee provision of the agreement.

Based on our review of the files for 15 loans (5 defaulted loans and 10 delinquent loans), we found that only 4 of the files contained evidence that the borrower was notified of the potential default and of the actions needed to forestall the default. In addition, there was no evidence that the Bureau apprised the borrowers of actions the Bureau would take to collect the debts. None of the 15 files had evidence of penalty actions taken by the Area Office, even though 13 of the loans had been delinquent for over 1 year. Furthermore, the Area Office had no written procedures for promptly identifying overdue loan payments and had not established time frames or a policy for making initial contact with the borrower through demand/information letters or personal contact.

The Area Office Credit Officer stated that he did not initiate collection actions on these loans because he believed that the Bureau's accounting division, located in Albuquerque, New Mexico, was responsible for these actions. However, the Bureau Manual (47 BIAM Supplement 2) states that area credit office officials are responsible for loan collection activities. Because collection actions have not been timely, the Bureau could lose an additional $14.8 million on loans that are more than 1 year past due.

Loan Write-Offs

The Area Office recommended the write-off of direct and assigned loans without ensuring that all required actions were taken to protect the Government's interests. The Departmental Manual (344 DM 10.7) states that bureaus/offices should develop and comply with procedures (344 DM 5) for terminating collection activity. However, the Area Office had not developed termination procedures and did not comply with. Departmental standards for terminating collection activity before it recommended, in 1993, that 2 1 direct loans, with balances totaling about $2.9 million, be canceled.

In response to our request for the files for the 21 loans, the Area Office provided us with 19 loan files ($2.6 million) but could not locate loan files for the remaining 2 loans ($300,000). Of the 19 loan files reviewed, we found that the Area Office did not comply with Departmental standards for terminating collection activity, including the following: determining the debtor's ability to pay (16 loans); requesting the concurrence of the Solicitor (16 loans); and considering the possibility of administrative offsets (16 loans). For example, a direct loan with over $1.3 million due at the time of cancellation was written off without any evidence in the file that attempts were made to collect the debt or to minimize the Government's loss upon cancellation. Specifically, we found no evidence in the file that the debtor was contacted or an attempt was made to do so; a current credit report was obtained or requested; an attempt was made to seize and liquidate collateral that was pledged; or the debt was referred to the Solicitor.

Division of Financial Assistance officials said that they believed that the Bureau of Indian Affairs Manual contained adequate guidance for writing off loans and that they therefore did not require the area offices to comply with Departmental Manual requirements. However, we found that the Bureau Manual (47 BIAM Supplement 4) did not, for example, address requesting the concurrence of the Solicitor for terminating collection activity or offsetting

amounts owed against other borrower assets. We believe that the Area Office should ensure that its procedures conform to the Departmental standards.

Loan Program Review

The Division of Financial Assistance worked with the Area Office to correct the deficiencies discussed in the Division's June 1994 report on the Area Office's management of direct and guaranteed loans. The Division subsequently closed out the review in a December 14, 1994, memorandum to the Eastern Area Director based on the Area Office's assertions that 77 percent of the deficiencies had been corrected. However, we found that some of the reported program deficiencies had not been corrected. For example, although the Area Office reported that 81 required documents, such as executed loan promissory notes and loan security agreements, identified in the Division's report as missing from the loan files were in the files, we found that 37 of the 8 1 documents were not in the files at the time of our review. The missing documents included 14 documents related to the two loan files that the Area Office could not locate. In addition, we found that some of the specific corrective actions identified by the Area Office in a status report from the Area Credit Officer to the Area Acting Trust Services Officer had not been taken. For example:

- According to the status report, the Office of Economic Development renegotiated a $1.8 million loan administered by the Area Office to provide interest-only payments through December 20, 1996, at which time payments would increase to include principal amounts. However, we found no supporting documentation in the Area Office's file, such as a signed agreement, signed promissory note, and interest payment schedule, to support the modification.

- According to the status report, the Area Office had approved a request from an Indian tribe to consolidate three direct loans, totaling $565,000, into one loan; prepared the required promissory note and commitment order; and recorded the required financing statement with the appropriate county. However, we found none of this documentation in the loan file.

Since, we found, during our review, that many of the required documents were missing and that many deficiencies had not been corrected, we believe that the Office of Economic Development should ensure that all deficiencies identified in the June 1994 report are corrected.

Recommendations

We recommend that the Assistant Secretary for Indian Affairs ensure that the Eastern Area Office:

1. Complies with all requirements for documentation and analyses of a borrower's ability to repay before any new loans are approved.

2. Maintains files for all outstanding loans which contain a narrative, periodic summary of the loan's status; records of contacts with lenders and borrowers; and payment schedules, histories, and evidence that loan payments are current.

3. Apprises, in a timely manner, borrowers who are delinquent in their loan payments of actions the Government could take in case of default and pursues and documents all actions necessary to collect the delinquent debt.

4. Develops termination procedures for writing off loans. These procedures should address the preparation of justifications for writing off loans that include determinations that the debtor is unable to repay the loan, that concurrence by the Solicitor has been requested, that the availability and the liquidation of collateral have been considered, and that the possibility of administrative offsets has been considered.

5. Corrects, in conjunction with the Office of Economic Development Division of Financial Assistance, all deficiencies identified in the Division's June 1994 report on Eastern Area Credit Office operations.

6. Complies with Departmental requirements for loan programs contained in the Departmental Manual (344 DM 10).

Bureau of Indian Affairs Response and Office of Inspector General Reply

In the December 24, 1996, response (Appendix 1) to the draft report from the Assistant Secretary for Indian Affairs, the Bureau concurred with all six recommendations and provided a list of actions taken over the last several years to strengthen the management of credit programs. Based on the response, we consider Recommendations 1 and 4 resolved and implemented and Recommendations 2, 3, 5, and 6 resolved but not implemented. Accordingly, the unimplemented recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation, and no further response to the Office of Inspector General is required (see Appendix 2).

The legislation, as amended, creating the Office of Inspector General requires semiannual reporting to the Congress on all audit reports issued, the monetary impact of audit findings, actions taken to implement audit recommendations, and identification of each significant recommendation on which corrective action has not been taken.

We appreciate the assistance of Bureau personnel in the conduct of our audit.

United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, D.C. 20240

Memorandum

DEC 24 1996

To: Assistant Inspector General for Audits

From: Ada E. Deer Ada E. Deer
Assistant Secretary - Indian Affairs

Subject: OIG Draft Audit Report, "Direct and Guaranteed Loan Program, **Eastern** Area Office, Bureau of Indian Affairs" **(C-IN-BIA-013-95)**

The subject draft audit report includes six recommendations to improve the administration of the direct and guaranteed loan program in the Eastern Area Office of the Bureau of Indian Affairs (Bureau). The Bureau concurs with the six recommendations in the draft report.

In 1994 and **1995,** the Office of Economic Development (OED) reviewed delinquent loans at all Area Offices. The OED recommended specific corrective actions throughout the Bureau and has provided transaction-specific feedback to Area Offices on their efforts. The major issue for the Eastern Area Office in the 1994 review was the lack of documentation in loan files. Since OED was assured that the documentation problem had been corrected, the review was closed. The OIG's subsequent review disclosed that this documentation problem persists and identified additional problems in the office's management of the credit program.

During the last several years, the Bureau has taken a number of actions to strengthen management of credit programs:

1. Loan guarantee ceiling allocations for FY 1995 were issued only to those Area Offices having delinquency rates less than 50% in the assigned guaranteed and direct loan portfolio. All other Area Offices were required to submit loan recommendations to OED on a case-by-case basis prior to finding allocation and approval. OED was authorized to withhold funding when the Area's credit memorandum failed to support a reasonable prospect for repayment.

2. The Area Offices and Agencies were required to manage receivables as prescribed in the U. S. Department of Treasury - Asset Management Manual, Volume I entitled "Managing Federal Receivables." The provisions of this Manual are consistent with OMB Circular A-129, the Federal Claims Collection Standards (4 CFR 1 01), and recent laws regarding Federal credit management, including the Federal Debt Collections Procedures Act of 1990, the Federal Credit Reform Act of 1990 and the Omnibus Reconciliation Act of **1993.**

3. In December 1995, a temporary loan guaranty ceiling moratorium was imposed on 11 of the 12 Area Offices due to continuing delinquency problems. The moratorium was lifted on June **5, 1996.**

4. In August 1996, the Area Offices received standards which would be used to assess their recommendations for payments on defaulted loan guarantees. This guidance ensures that lenders have complied with regulations and loan guaranty agreements prior to payments on loan guarantees.

5. In September 1996, 33 recommendations for loan cancellation were returned to Area Offices by OED, since Area Office recommendations failed to meet cancellation criteria as set forth in "Managing Federal Receivables." Common deficiencies were identified and the criteria for cancellation were reiterated.

6. In September 1996, all Area Office and Agency credit staff were required to attend the Government-Wide Debt Collection Conference of the Departments of Justice and Treasury, which explained credit collection options. Area Office and Agency staff were also required to attend a certification program to develop the skills necessary to evaluate business and real estate credit.

7. In October 1996, guidance was issued requiring that all Area Offices submit the Bureau's independent assessment of the prospect of repayment to OED. OED will not allocate funds for any loans without a determination that there is a reasonable prospect for repayment.

8. In October 1996, the Deputy Commissioner implemented a performance standard for Area Directors which requires them to reduce loan delinquencies to 5 percent or less of their total outstanding loan portfolio by September 30, 1997.

The Bureau concurs with the six recommendations in the draft report. Without confidence that the OIG's six recommendations can be implemented by Eastern Area Office, the Deputy Commissioner has rescinded the Eastern Area Director's authority to approve loans and has delegated that authority to the OED (see Attachment). The OED will be responsible for ensuring that all recommendations related to Eastern Area Office's loan portfolio are met.

Recommendation 1. Comply with all requirements for documentation and analyses of a borrower's ability to repay before any new loans are approved.

Response: The Bureau concurs. As set forth in the Deputy Commissioner's October 1996 memorandum to Area Offices, the OED will ensure that all approved loans for Eastern Area Office meet the statutory requirement that a reasonable prospect for repayment is independently determined by a Bureau official. A BIA credit memorandum justifying loan approval will be completed prior to loan approval. The Bureau considers this recommendation resolved.

Recommendation 2. Maintain files for all outstanding loans which contain a narrative, periodic summary of the loan's status; records of contacts with lenders and borrowers; and payment schedules, histories, and evidence that loan payments are current.

Response: The Bureau concurs. The OED will transfer all loan files from Eastern Area Office, inventory the documents in each file, and obtain any missing information from appropriate sources.

Responsible Person:	Director, Office of Economic Development
Estimated Date of Completion:	May 1, 1997

Recommendation 3. Apprise, in a timely manner, borrowers who are delinquent in their loan payments of actions the Government could take in case of default and should pursue and document all actions necessary to collect the delinquent debt.

Response: The Bureau concurs. After files have been thoroughly documented, the OED will refer all loans more than 180 days delinquent to the Department of Treasury for collection. Demand letters will be sent to those borrowers delinquent less than 180 days. Loans that remain delinquent will be referred to the Solicitor and/or Department of Justice for further collection action.

Responsible Person:	Director, Office of Economic Development
Estimated Date of Completion:	October 15, 1997

Recommendation 4. Develop termination procedures for writing off loans. These procedures should address the preparation ofjustifications for writing off loans that include determinations that the debtor is unable to repay the loan, that concurrence by the Solicitor has been requested, that the availability and the liquidation of collateral have been considered, and that the possibility of administrative offsets has been considered.

Response: The Bureau concurs. In August 1995, the U.S. Department of the Treasury's Asset Management Manual, Volume 1, "Managing Federal Receivables," was distributed to all Area Offices and they were directed to use this as the Bureau's official guide in collection of delinquent debts. Chapter 5 of this publication includes procedures for write-offs and write-off criteria.

The Bureau is in the process of updating its guidance (47 BIAM) to incorporate the proposed rules and Treasury guidance. The OED will ensure that all Eastern Area Office loans adhere to termination of collection action guidance, including the Departmental Manual, where applicable.

Responsible Person:	Director, Office of Economic Development
Estimated Date of Completion:	April 15, 1997

Recommendation 5. Correct, in conjunction with the Office of Economic Development, Division of Financial Assistance, all deficiencies identified in the Division's June 1994 report on Eastern Area Credit Office operations.

Response: The Bureau concurs. The deficiencies identified at Eastern Area Office will be corrected by the transfer of the program to the headquarters office. A loan specialist will be hired by March 15, 1997 to ensure sufficient staffing to complete corrective actions by the specified due date.

Responsible Person:	Director, Office of Economic Development
Estimated Date of Completion:	October 15, 1997

Recommendation 6. Comply with Departmental requirements for loan programs contained in the Departmental Manual (344 DM 10).

Response: The Bureau concurs. Since the Departmental Manual (344 DM 10) dated November 12, 1986, does not reflect recent amendments to Federal debt collection statutes, the Bureau has adopted

the Department of Treasury's comprehensive guidance as set forth in "Managing Federal Receivables."

The OED has revised its direct loan regulations (25 CFR 101) to reflect the most updated guidance, including the Debt Collection Improvement Act of 1996, and has forwarded the proposed rule to the Solicitor for review. The OED intends to submit the guaranteed loan regulations (25 CFR 103) to the Solicitor for review and comment by January 15, 1996. The Bureau is in the process of updating 47 BIAM to incorporate the proposed rules, the Department manual where current, and Treasury's guidance; this will be the debt collection guidance to be followed by the Bureau.

Responsible Person:	Director, Office of Economic Development
Estimated Date of Completion:	90 days after Solicitor approves the Rule

Attachment

[ATTACHMENT NOT INCLUDED BY OFFICE OF INSPECTOR GENERAL]

STATUS OF AUDIT REPORT RECOMMENDATIONS

Finding/Recommendation Reference	Status	Action Required
1 and 4	Implemented.	No further action is required.
2, 3, 5, and 6	Resolved; not implemented.	No further response to the Office of Inspector General is required. The recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

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